

1812



381
N21

1923

Economic Conditions
Governmental Finance
United States Securities



New York, September, 1923

General Business Conditions

THE business of the country has given evidence of great stability during the Summer months, and enters the Fall season with general confidence prevailing. It is now more than three months since the reaction to the Spring boom began, and notwithstanding the spirit of caution that has been dominant the volume of business has been well-sustained. The industries have shown rather less than more of the usual seasonal slackness, and railroad traffic for each month has been greater than for the corresponding month in any previous year. The natural inference is that the heavy buying of last Spring explains in large degree the recession of buying in recent months, for on the whole the buying seems to have been sufficient to supply the needs of the country and maintain practically full employment.

The fact that forward buying has been light, coupled with the fact that retail trade over the country has been good, gives assurance that stocks of merchandise must be constantly replenished, for there is no reason to believe that the purchasing power of consumers has been diminishing. Labor is well-employed at high wages, the only menacing controversy being that in the anthracite coal field. The situation of agriculture has improved by reason of price advances for live stock and corn, while even wheat has a more hopeful outlook.

The textile industries have to meet a situation in which, on the one hand, costs are higher owing to wage-increases and higher prices on raw materials, while on the other hand the public has set its face very resolutely against higher prices on finished goods. The result is that business has been a little slow in some lines and margins very close. Nevertheless, the general sentiment is that trade will be quite satisfactory in the coming weeks.

In cotton goods, the situation has been unfavorable to much activity since last Spring, when raw cotton went above 30 cents per pound on the theory that American stocks would be wholly exhausted before the new

crop was ready. Buying fell off to such an extent that new and old crop cottons were on practically the same basis by the end of the crop year. Even then, however, conditions were confusing, for stocks are so small that prices have been very sensitive to the weather conditions affecting the new crop. Buyers of goods have been indisposed to follow the market up, and the mills have complained that goods at current prices were not in line with raw cotton. Nevertheless, an increasing volume is being done, and there is reason to believe that when the size of the cotton crop is finally settled and prices are adjusted thereto, goods will move freely.

The situation in woolens is still more indefinite. The sale of dress goods has been good, but of men's wear for the Spring trade has been light, and there has been some curtailment of production. The rise of prices which has been made necessary by higher prices for wool and higher wages are not pleasing to the trade, and forward orders are restricted in consequence. Reports are more or less conflicting, some of the lines being reported as moving very well.

In silk goods as in cottons and woolens, raw materials and wages are both higher, necessitating higher prices to the trade. In all lines merchants are inclined to go slow and try higher prices out on the consumer, whose decision will be final. This cautious attitude of the retail trade prompts manufacturers and wholesalers to pursue the same general policy, with the result that the prices of raw materials are subject to more than the usual amount of fluctuation as soon as buyers appear. At the same time, this buying policy insures that stocks in the hands of dealers will be so small as to guarantee a certain minimum volume of buying at all times.

The shoe trade is looking well. A wide inquiry instituted by one of the leading trade journals shows that orders for shoes for the balance of 1923 are running from 10 to 25 per cent ahead of 1922 and that the feeling among manufacturers is, in the main, a very satisfactory one. Shoe orders are taken so far

ahead that they give a more than usually interesting insight into the feeling of retailers as to business conditions several months hence.

The automobile industry, although not running on as high pressure as in the first half of the year, is holding up very well. The railroads are buying freely of steel and still placing orders for equipment. Bradstreet's July figures for building permits in 167 cities show an aggregate of \$224,078,000, against \$239,727,869 in June and \$206,359,995 in July, 1922. This indicates that building activity is still very well maintained, and according to reports this is especially true as to business buildings.

On the whole the outlook is for steady business, sustained by the consumptive requirements of a well-employed population, with little speculative activity and relatively small price changes. This signifies that after the great upheaval caused by the war the country is getting back to more stable conditions.

Mexico Recognized

The restoration of diplomatic relations between the governments of the United States and Mexico is an event which may prove to be of important significance in a business way. Of course the United States desires friendly relations with Mexico. It wants nothing of Mexico but that American citizens who visit the country or seek to transact business there shall be accorded the protection of the laws of the country in those personal and property rights which are recognized in all civilized countries, and which this country accords to citizens of Mexico here.

The matters that have been at issue between the two countries have been under patient consideration between the Mexican government and a very competent Commission appointed by the President of the United States, and the agreement arrived at has been approved by the Secretary of State and President of the United States. Methods have been arrived at for the settlement in detail of the matters that have been subjects of controversy, and there is no reason to doubt that everything will be worked out in a satisfactory manner.

The foreign creditors of Mexico, holders of her government bonds, some time ago arrived at terms of settlement with the Mexican government, making liberal concessions by way of aiding the country to resume its position upon a sound financial basis.

Mexico is a country of very great natural resources, which can be developed only by the investment of capital. Doubtless it will be to her advantage, as it was to the advantage of the United States in former years to have foreign capital employed in such development, and the United States is the most natural

source of such capital supplies. With the development of her resources and increase of production, trade between the two countries naturally should have great expansion, to the advantage of both countries. It is to be hoped that the reestablishment of a good understanding between the two countries will lead to all these desirable results.

Rise of Agricultural Products

Prices of agricultural products were at their lowest in July, when small grain crops were nearing harvest with large promise. Estimates upon this country's production of wheat has been lowered about 30,000,000 to 35,000,000 bushels since July 1st, and upon the Canadian crop fully 100,000,000 bushels, and these reductions have given some strength to the markets. It remains true, however, that without including Russia, Europe plus North Africa, has produced about 200,000,000 bushels of wheat and rye in excess of last year's harvest. It is accepted that Russia will export a considerable amount of rye and probably some wheat, but no very definite calculation about it can be made.

An unusual feature of the situation in this country is that east of the Rocky Mountains and aside from the durum variety, which is practically all exported, the wheat crop will be practically all wanted for home consumption. The surplus is in the Pacific Northwest, which has a fine crop. As a result of the short crop of Spring wheat in Minneapolis territory the milling demand at that center to supply domestic consumption has carried the price in that market about 14 cents per bushel above Chicago. It is a mistake to suppose that wheat has been ranging much below the prices of a year ago. The range of contract wheat in the last week of August, 1922, was, for September delivery, 99½ to \$1.03⅓, while for the last week of August, 1923, the range for September has been from \$1.00 to \$1.03; for the December delivery, in the same period, the range was, last year, \$1.00⅓ to \$1.05⅓; this year, \$1.04⅔ to \$1.07⅓. Last year, the Chicago and Minneapolis markets were about on a level, while this year, on the last day of August, September wheat closed in Chicago at \$1.00⅓ and in Minneapolis at \$1.14⅓. The December delivery was about 3 cents higher in both markets.

All other grains are higher than they were a year ago, two months or one month ago. In corn, the range in Chicago during the last week of August, 1922, for September delivery was 59⅔ to 60½ cents, and for the December (new crop) delivery, from 54 to 55⅔; in the last week of August, 1923, the range for September delivery was from 81⅔ to 84⅓, and for the December delivery from 66⅔ to

67%. The fact that the December delivery (new crop) in selling about 12 cents per bushel over the corresponding figures of a year ago and about 5 cents a bushel over what it was two months ago, is notable, because the crop now promises to yield over 3,000,000,000 bushels and rank among the half dozen largest crops ever produced.

Oats, a year ago for September delivery, were ranging from 31 $\frac{1}{2}$ to 32 $\frac{1}{2}$; and at the close of August, 1923, from 37 $\frac{1}{2}$ to 38 $\frac{1}{2}$.

The most pronounced change in prices has been in hogs, which scored an advance of about \$2.00 per hundredweight in August, a remarkable demonstration of strength in the face of record-breaking receipts at the principal markets since last Winter. The advance may not be sustained when the big Fall runs are made, but it shows how readily the market responds when demand and supply come into fairly balanced relations.

The market for well finished cattle also has been much stronger, and sheep and lambs have been doing well.

The Cotton Situation

The cotton situation has been an extraordinary one throughout the year. Two short crops in succession had reduced the stocks to a point where anything like normal consumption would exhaust them before this season's crop would be made. But the high prices which resulted from this prospect had the effect of reducing consumption in some of the principal markets. Exports from the United States in the fiscal year ended June 30, 1923, were 5,857,209 bales, which compares with 8,531,529 bales, average exports in the five years ended June 30, 1914.

The following is an extract from a recent letter by a member of the staff of the London branch of this Bank, touching this subject:

The Manchester spinners simply cannot pay the price for American cotton and make it up into goods that will compete in the markets of the world. More than three-quarters of the business done in Liverpool used to be in American cottons; now the American product constitutes less than one-half of the total and the rest of the business is in the so-called "outsiders" i. e. Peruvians, Africans, and Indians. Manchester prefers the American cotton and will return to it as soon as possible, because they have been using it for generations and therefore know the grades well. Furthermore, the grades are uniform, which is more than can be said of the "outsiders", and this makes for better production from the spindles and looms."

The official figures for British exports of cotton piece goods support this statement. For the month of July, 1923, these aggregated 316,084,000 square yards, against 638,971,000 in the corresponding month of 1913, and 443,610,000 square yards for July, 1922; for the twelve months, August, 1922, to July, 1923, inclusive, they were 4,309,661,000 square yards, against 7,075,559,000 in the corresponding period, 1912-13.

The reduced stocks and advancing prices induced the cotton-growers to plant last Spring the largest acreage on record, but with drought in the Southwest, too much rain in the Southeast and insect pests everywhere, the market has been kept in a constant state of excitement trying to estimate the outcome. The government July report (as of July 25) indicated a crop of about 11,500,000 bales, but the August report brought the probable yield down to 10,788,000 bales. The total carry-over of American cotton is about 2,500,000 bales, which would give a total supply of about 13,300,000 bales. Consumption is estimated by Secretary Hester, of the New Orleans Cotton Exchange, at 12,681,000 in the last year and 12,829,000 in the previous year. It must be borne in mind that it is impossible to get the aggregate carry-over at home and abroad much below 2,500,000 bales without a very extensive curtailment of mill operations. In view of the small stocks of cotton goods everywhere, the outlook is one to cause apprehension in the trade.

The drought in Texas and Oklahoma is now broken, and it is possible that the crop may make some recovery in that section. The price has advanced about \$3.00 per bale on the government report.

Farm Incomes

So much has been said about the desperate plight of farmers that a survey lately completed by the Iowa State College of Agriculture of the incomes of several hundred farmers in Iowa, is very welcome, as furnishing authentic information. The survey covered 207 farms in Calhoun County and 70 farms in Humboldt County. The report classes the farmers as grain farmers, signifying that for the most part the crops were sold for cash, instead of being fed to live stock on the premises. The summary for Calhoun County is as follows:

Ames, Iowa, July 11.—Two hundred and seven cash grain farmers in Calhoun County made an average labor income last year of \$1,200.

The figure, says C. C. Taylor, of the agricultural economic department of Iowa State College, who was in charge of the survey which furnished the data, is considerably greater than farm labor wages. It indicates, he believes, that the majority of grain farmers in Calhoun County, and possibly throughout the state, earned a moderate profit for their labor and management.

That the possibilities of income from grain farming are much greater than this average of \$1,200 is indicated by the profit of \$3,931 made by one of these farmers. On the other hand, another farmer had a loss last year of \$2,303.

These figures were secured in a survey which included personal visits to each of the farmers and the going over with them of their books for the year that ended March 1, 1923.

The survey was made in the heart of the cash grain growing section of the state. Detailed financial statements for each farm have been compiled and are being sent to the farmers concerned.

Only six of the 207 farmers failed to have anything to show for their labor and management at the end of the year. All of the remainder made some profit. Thirty farmers made \$2,000 or more and another 30 made \$500 or less.

The details of farm business for last year, says Mr. Taylor, are indicated by the figures from a typical Calhoun County farm of 160 acres. The inventories of March 1, 1922, and March 1, 1923, showed the following values:

	1922	1923
Real estate	\$48,000	\$48,410
Livestock	1,345	1,775
Machinery	988	947
Feed	1,736	1,990
Cash	300	330
Total	\$52,369	\$53,422

For depreciation, real estate was written down \$190 on buildings, and on machinery \$103. New buildings were added at a cost of \$600, and new machinery \$62. Increase in live stock is accumulations.

The expenses of operating the farm for the year, outside of personal labor, were as follows: Paid for live stock, \$298; interest, \$320; new buildings, \$600; new machinery, \$62; other operating expenses, \$1,042; total, \$2,322.

The sale of \$664 worth of live stock, \$312 of live stock products, and \$2,378 of crops, gave a total sale for the year of \$3,354.

The excess of sales over expenses was \$1,032 to which was added the increase in inventory of \$1,053, making a net income of \$2,085. This was the amount of net income available for personal expenses and investments.

In addition, the use of the farm house and many farm products were obtained directly from the farm for personal use.

The home products used were: Crops (potatoes, etc.), \$62; meat butchered, \$79; stock products, \$181; house rent (at cost), \$546; total, \$818.

This figure added to the \$2,085 net income resulted in a total net income of \$2,903.

Investment and Labor Returns

The above total net income was the combined earnings of the farmer's investment and his labor and management. He had no children old enough to do farm work, so no deduction was made for family labor. In order to determine the balance remaining for his own labor and management for the year, market prices were put on the use of his land and active capital. It will be noticed that the value of home-used products is included in this remainder.

The cash rental value of this land was found to approximate 3 1/4 per cent of its estimated sale value. Since this farm was valued at \$300 per acre its gross rental value was \$1,560 and its net rental value was \$577, arrived at as follows:

Earnings of owned land.....	\$1,560
Less mortgage interest	320
Less real estate taxes	205
Less building insurance	19
Less building repairs	225
Less building depreciation	190
Less grass seed	24
 Total land expenses	 983
 Net earnings of real estate.....	 577
Earnings of working capital at 7%.....	306
Balance left for operator's own labor and management	2,020
 Total net income	 \$2,903

This farmer made one of the highest labor earnings largely because he brought into the year a large quantity of 43 cent corn which he sold at about 52 cents and because he obtained excellent yields with only moderate operating expenses. His corn was worth 59 cents at the end of the year. These results are especially notable because they were obtained in spite of a high land capitalization of \$300 per acre and a correspondingly high land charge of \$1,560.

The summary for Humboldt County is as follows:

Ames, Iowa, July 20.—Supporting figures on farm incomes recently announced from Calhoun County, data based on surveys of 70 farms in Humboldt County, showing that the average return to the farmers for their labor and management for last year was \$1,389, have been made public by the Agricultural Economics Section of the Iowa Agricultural Experiment Station.

This labor income is slightly larger than that of \$1,200 found in Calhoun County. The bulk of these 70 farmers, says C. C. Taylor, in direct charge of the gathering and compiling of the data, made between \$800 and \$2,000 last year.

Two farmers tied for first rank with \$3,706 each. One of them is a former Iowa State College student who is now renting for one-half share. The other is an owner. The third man made \$3,531 and the fourth \$3,187, both of whom are crop share renters. These four men were the only ones to make over \$2,800.

At the other extreme, one owner lacked \$1,764 of having anything left for his labor and management. The second lowest man, a crop share renter, lost \$811 and the third lowest, an owner, \$500. These three and two other small losers were the only ones who failed to make something for their labor and management.

In arriving at these figures the land was charged for, on owned farms, at its estimated cash rental value. The most frequent cash rental rate was \$8 per acre. On a number of farms this cash rent appraisal was less than what the owner paid for interest, taxes, and other real estate charges, so that these owners may be said to have lost from the ownership of their farms unless the land value increases sufficiently to offset that loss. These real estate losses were particularly prevalent on farms bought during the "land boom" of 1919 on which interest charges were very heavy. Most of the farms showing this sort of loss on real estate had an encumbrance of over \$100 per acre. Since these real estate losses have not been deducted from the net returns for labor and management, the latter may be said to represent, on the owned farms, what would have been made if cash rent had been paid. On rented farms, however, the actual rent was charged.

The \$1,389 return for labor and management is only slightly greater than the average found in Calhoun County and is not much greater than the average found for the same year in Shelby County in the cost of production investigation carried on jointly by the Iowa Section and The Iowa Farm Bureau Federation. The figures indicate that the natural opportunities in any county are capitalized in proportion to their producing ability but that the best farmers in any locality can earn for themselves far above the average.

Situation Not Desperate

A better idea of the situation is obtained by seeing the individual returns than by having simply the averages. For example, the Humboldt list of 70 farmers is given below. Each of these sums represents one year's pay for a certain farmer's labor, after deducting rent, or the equivalent of rent, from net income. It includes the value of food and shelter provided by the farm:

\$3706	\$1941	\$1249	\$776
3706	1922	1228	776
3531	1860	1203	662
3187	1849	1200	538
2798	1770	1177	492
2781	1691	1163	478
2755	1688	1111	462
2616	1684	1100	413
2589	1651	1069	382
2416	1547	1015	344
2389	1542	1013	228
2384	1541	996	— 1

2202	1459	952	— 13
2044	1415	935	— 500
2029	1388	873	— 811
2011	1349	825	— 1764
1963	1318	808	
1950	1296	806	

These figures throw a flood of light on the farming situation in a locality outside of wheat farming, and show a situation that is far from desperate. It must be borne in mind that the \$8 per acre charge for the use of land is a charge that has resulted from competitive bidding for land under the stimulus of war prices for farm products. The cost of making a crop is the same on a given farm whether the land is valued at \$300 or \$100 per acre. The selling value of land is the capitalized value of estimated profits. When land is said to be worth \$300 per acre the meaning is that somebody is willing to give that price for the privilege of having what he can make the land produce. If he pays too much, his position is no different from that of any one who has paid too much for any other business. It is unfortunate to have many people do so, but many people have done so in other lines than farming in the last six years.

It is pertinent to say that all of the land in these Iowa counties, except such as may have been included in railroad grants, was sold by the United States government at \$1.25 per acre or given to settlers under the homestead act, within the memory of persons still living.

Cost of Producing Wheat

Closely following the above reports of farm incomes in Iowa in 1922 comes the report of a survey of wheat production in North Dakota in 1923, issued by the Farm Management Department of the North Dakota Agricultural College, and compiled by Rex E. Willard, Farm Economist. One hundred twenty-two records were secured by county agents in Pembina, Grand Forks, Richland, Barnes Kidder, Wills, Ramsay, Ward, Williams and Grant counties. The records were obtained between August 1st and 8th. The counties are in different sections of the state. The average cost of producing wheat on the 122 farms is reported as follows:

	State average
Man labor (including board).....	\$1.51
Horse labor	1.21
Seed	1.48
Manure47
Twine22
Threshing	1.31
Tractor43
Automobile19
Machinery84
Miscellaneous99
Management52
Use of land	3.06
Total	\$12.23
Yield per acre (bushels).....	8.2
Cost per bushel	\$1.49

It is apparent that the dominant factor in this statement is yield per acre, which is a highly variable factor with different farmers. The cost of producing a crop of wheat is practically the same up to the harvest, and nearly the same up to threshing, whether the yield turns out to be 8 bushels to the acre or 20. The report discusses yield per acre as follows:

Yield per acre is the biggest factor that determines the cost per bushel. While the cost of producing a small crop is less per acre than of a large crop, the reduction in cost is nothing like as great as the yield. The following figures show approximately the average costs per acre and per bushel for yields ranging from 2.5 to 19 bushels per acre:

Yield per acre	Cost per acre	Cost per bushel
2.5	\$8.33	\$3.33
7.0	11.46	1.64
10.0	12.52	1.25
13.0	14.12	1.09
19.0	16.96	.89

It is therefore seen that even with an excellent crop of 19 bushels per acre a farmer can scarcely hope to make a profit at present prices. There are many individual farmers, however, who are able to reduce their acre cost so that in some cases, where good yields are being made, a profit will be secured in 1923.

It will be noted that if the farmer obtains a return that covers cost according to the calculation, he receives compensation for his labor and investment, although no profit.

Significance of the Showing

The lesson that stands out clearly in these figures is that the farmers of North Dakota cannot afford to grow wheat with a yield of only 8.2 bushels per acre, at any price likely to rule in world markets. It is true that 8.2 per bushel is below the average yield in North Dakota, and it is particularly unfortunate for one locality to have a low yield when the world production is high and prices are low.

At a total of 400,000,000 bushels of wheat grown in Canada this year, the yield is about 17 bushels to the acre, and it was approximately that last year.

While the average yield in North Dakota this year is only 8.2 bushels, of course many farmers had more than that, but the yield is likely to average lower there than in Canada, because the lands have been growing wheat longer. It is the history of all wheat-growing regions that one-crop production rapidly takes from the soil the constituents required, unless fertilizers are used. This is a condition of which the farmers must take account. They cannot hope to compete with rivals who have them at such a disadvantage and who may greatly increase the acreage in production.

Price-Fixing Based on Costs

These figures from North Dakota and Iowa show the fallacy of any price-fixing based upon production costs. There are all sorts of costs.

The survival of the fittest is the rule throughout business life, and rightly so. It is not cruel; it does not signify that anybody must starve or be without employment. It simply means that people must adjust themselves to existing conditions. No one can have a claim to live on someone else, perhaps no better off than himself, which is the meaning of every subsidy from the public treasury. There is a place for everyone, but perhaps not just where he is or at just the kind of work he is doing. If conditions pinch, he must understand that this is simply the sign by which people are prompted to hustle around and find where they belong or change their methods to what they ought to be. Wouldn't he rather do this of his own free will than have some overhead authority move him around like an automaton and tell him all his life just what he shall do and what he shall get for doing it? The pressure of discomfort, and finally of necessity, is the natural pressure by which the industrial organization is kept in balance and by which all improvements are introduced. It has been the experience of many people that changes which they were forced by economic conditions to make, and which at the time were thought disastrous, eventually proved to be to their permanent advantage.

The Law of Profits

These figures which show the varying results of farming by different farmers under practically the same conditions tell the whole story of success and failure, not only in farming but in all other lines of business. Most of the socialistic philosophy of the day is based upon the theory that there should be substantial equality in the division of the products of industry. There is no great difference in these farms, particularly within the same county of Iowa, but some of the farmers are prosperous and others losing money. In one county, 30 farmers made \$2,000 or more each and another 30 made \$500 or less, while more than 100 were between these high and low groups. They all sell their products in the same markets and at practically the same prices. Those who have the lowest costs make the most money, and the difference is a matter of management. It is the same in other business. The low-cost producers lead the procession; they introduce and demonstrate new methods, which are gradually adopted by others, until they affect production costs generally; then selling prices are lowered and con-

sumers benefit. Eventually the low-cost methods prevail, but the people who are slow to adopt them are under pressure.

In all kinds of business the marginal, high-cost producer is just existing while the low-cost producer is making money. So long as the relation between supply and demand is such that the output of the high-cost producer is required, prices will remain high enough to induce him to continue his operations, and he serves as an umbrella for all the low-cost producers. They get the same price he does, and are entitled to it. In time, however, as low-cost production increases, the high cost production is undersold and eliminated, and the market is established on a lower basis. This is the survival of the fittest. It is the way of progress.

These farm figures show how little information a mere statement of "averages" may give about a situation. They usually indicate the line between the successful and unsuccessful, prosperity and poverty. These terms are relative and do not always mean the same thing, but always society is interested in bringing up the average. Presumably the condition of those below the average can be improved, but not by continuing as they are. There is something wrong with them or their methods when they fail to do as well as others under the same conditions.

The fact is that the people who are above the average in what they do, set the pace for the others and show the way. We have said that there probably is not much difference in the farms covered by this survey, but if there is a difference the farmers who are above the average have the best. They have the first pick. They make the prices for farms by offering to buy them, and may make the prices so high that farmers who are below the average cannot have good farms. This is one of the natural arrangements by which the best opportunities go to the people best able to improve them. It is not a bad arrangement for anybody, because it tends to secure the greatest possible production of the things which everybody wants. Even the people who are crowded out of ownership and management by this process will on the whole be better off by working under the direction of others.

A Monument to the Boll Weevil

Possibly the one-crop wheat-growers may derive a lesson from the action of the citizens of Enterprise, State of Alabama, who have recently erected a bronze fountain in the heart of the business district of the town, and dedicated it to the boll weevil, to whom they give credit for forcing that section of Alabama to abandon growing cotton exclusively and practice crop diversification. The inscription on the fountain reads:

"In Profound Appreciation of the Boll Weevil and What It Has Done as the Herald of Prosperity. This Monument Is Erected."

The European Situation

In Europe interest has been centered during the past month in the change of government in Germany and the correspondence about the Ruhr situation between Great Britain and France, participated in also by Belgium and to some extent by Italy.

The economic situation in Germany has been growing worse for so long that little significance appears to attach to a repetition of the statement. Nothing like the conditions existing in Germany ever have been seen before, except in Austria and eastern Europe in the last two years, and currency depreciation in Germany now has gone far beyond that of any other country except Russia. Moreover, Germany is a far more important industrial and commercial country than any of these others, and the population is more dependent upon stable business conditions.

The desperate condition of German government finances are illustrated by the fact that the new budget recently submitted to the Parliament is balanced by estimating that forty-nine-fiftieths of the expenditure will be met by new currency issues. Of course that is a guess which might as well have been nine hundred and ninety-nine-one thousandths. The declining value of the currency renders all budget estimates valueless. It takes months to put new taxes into effect, and long before they are productive they become inadequate. The mark no longer can be said to have any definite value, although the currency still is in use and transactions are daily occurring in which it is valued at eight to twelve million marks to the dollar.

Credit and Prices

It is almost impossible for any one outside of Germany to conceive that business can be carried on at all with money of such uncertain value. Credit, of course, has all but disappeared, for no one wants any payments coming to him in marks. Interest rates must be adjusted to cover depreciation. The official rate of the central bank is now 30 per cent, but this is absurdly low, and the bank has announced the purpose of requiring that loans shall be repaid in the same gold values at which they were made. Current loans elsewhere are at fantastic rates of interest, as they must be when the principal may shrink 50 per cent over night. All monetary values are in confusion. The price rise in July was by far the most rapid yet. The Frankfurter Zeitung's index for 98 commodities, abbreviated, over the period since 1914 is as follows:

	Textiles and Food.	Leather.	Min- erals.	Miscel- laneous.	Manu- factured Foods.	All 98.
Mid. 1914.	1	1	1	1	1	1
Jan., 1920	20	26	27	11	15	20
Jan., 1922	38	58	52	31	33	42
Jan., 1923	1,768	3,206	2,622	1,778	1,518	2,054
April	5,350	8,590	7,822	6,434	5,315	6,425
July	37,682	61,841	45,301	34,736	29,809	39,898
Aug.	234,828	457,915	407,450	212,135	210,521	286,248

As against an index rise of 617 per cent the dollar exchange rose 563 per cent, with the result that gold prices which on July 1 were almost exactly those of 1914 are now higher, the dollar exchange index on the first being 261,905, as against the above price index of 286,248. Average gold prices, however, remain below present world-market prices.

Efforts to Stabilize Wages

Of course as the rapidity of depreciation has increased, disputes, strikes, riots and disorders have become more frequent. People hesitate to sell for the money. Mobs from the cities roam out into the farming districts and take food by violence, paying what they please. The labor organizations have been more and more insistent that wages should be paid on a gold basis, and this finally has been agreed to by the national organization of employers. Of course payments cannot be made in gold, but will be made in paper at the day's valuation. Even under this arrangement the employees will have to spend their wages very fast to keep ahead of the depreciation, as the rise of prices in the last week of July was 81.7 per cent. Since every increase of currency increases the depreciation, these efforts to overcome the depreciation by raising currency wages more promptly will accelerate the depreciation.

A Forced Loan

The German government is making another effort to stabilize the currency and to provide a fund for food purchases abroad by means of a forced loan, business houses being required to subscribe a certain proportion of their holdings of foreign currencies or foreign exchange. This will be effective while the fund lasts, but there can be no lasting stability so long as the budget is not balanced, and there seems to be no prospect that the budget can be balanced without a settlement of the reparations question. It is improbable that the budget can be balanced without the aid of a foreign loan, which is out of the question until the reparations problem is disposed of. The Reichsbank has lost approximately one-half its gold reserves since the first of the year, and feeling in financial circles is deeply pessimistic.

Fall of the Cuno Government

The expected has happened in the fall of the government headed by Dr. Cuno, which seems to have been the result of simply a concentration of discontent growing out of the general distress, rather than any definite

objection to its policies. The Reichstag, or Parliament, is made up of a half dozen groups, and the support of the Social Democratic party, or moderate socialists, was necessary to Cuno's majority. This support was formally withdrawn by resolutions adopted on August 12. The Berlin correspondent of the London Times says that the action was due to a wave of unrest almost revolutionary in character, among the working classes. He says, further:

It is very doubtful whether the Socialist Party in the Reichstag, or at all events the Right Wing, comprising the great majority of its Deputies, was at all anxious to bring down the Government so precipitately. The leaders were not thirsting for responsibility in the appalling condition of affairs that has supervened upon the months of blunder and neglect. An immediate decision was, however, forced upon them.

All through the week deputations of workmen have been arriving at the Reichstag, the various trades union headquarters, and the offices of the various undertakings, coupling with their clamour for higher wages a demand for the immediate resignation of Dr. Cuno, without which, they believed, their demands could not be satisfactorily met. It was thought that these deputations had been organized by the Communists with the idea of stirring up political trouble. Some of them undoubtedly were, but the personnel of others was so obviously composed of honest labor suffering under an intolerable sense of wrong that the genuine character of the movement could not be doubted. Even then the Socialist Party might not have given way, since this sort of pressure bore an appearance dangerously akin to a familiar form of dictation on the Russian fashion. But they were also forced forward by the trade unions.

The Communists had issued an order for a general strike to begin on Tuesday next at midnight, and the trade unions, in issuing their manifestoes calling upon Labor not to obey, had, at the same time, declared that the Cuno Government must go. Indirectly at least, therefore, the pressure came from the mob.

Moderate Declarations

The resolutions passed by the socialist members were moderate in tone. They stated that in view of the difficulties of the external and internal situation a government is required that possesses and is supported by the trust of the broad masses, and that the party had not the confidence in the Cuno government which these conditions require. It went on to declare that the government supported by the Social Democrats must have the following purposes:

The finance measures decided upon must be energetically carried out. A vigorous reform of the finances must be undertaken by the contribution of trade and industry through the guaranteed mortgaging of real property;

Currency reform, with the earliest restriction of inflation; credits to be placed on a gold basis and preparations to be made for currency on a gold basis; wages to be placed on a basis of real values; the same course to be adopted with respect to pensions and unemployment relief, which are to be adequately increased.

The Reichswehr to be dissociated from all illegal organizations;

An active foreign policy for the solution of the reparations question, conditional upon the complete preservation of the nation and the sovereignty of the German Republic;

An application for membership of the League of Nations.

The New Administration

Although the Social Democrats were strong enough to bring down the Cuno ministry they were not strong enough to form a ministry of their own. The combination consists of the German People's party, which is the party of the Industrialists, or business men, headed by Dr. Stresemann, who has succeeded Cuno as Premier, the Catholic Party and the Moderate Socialists.

There was nothing in the proceedings to foreshadow a new policy toward reparations, although the new premier is in position to modify the course of the government with greater freedom than the old premier, in view of his utterances, could have done. The speeches that Dr. Stresemann has made have been conciliatory in tone, although indicating no abandonment of the policy of "passive resistance" unless a settlement is reached without impairing German sovereignty in the Ruhr. He has repeated the Cuno offer of last May to give tangible security for reparations, such as railroads, real estate, etc.

British-French Correspondence

The British Government has given out a "white paper," containing the text of correspondence with the French and other allied governments, upon the subject of reparations and the Ruhr. The initiative was taken by the British Government last July, upon the basis of the German note making certain proposals for a settlement, the purpose being to urge the advisability of steps in unison for the further negotiations with Germany. The last British note was dated August 11, and was so direct and pronounced in its objections to French policy as to indicate that the two governments were at the parting of the ways, so far as policies toward Germany were concerned.

The British Position

The British position is that that Government is in full sympathy with the purpose of collecting reparations from Germany to the extent of that country's ability to pay, and will cooperate to that end, but that it disapproves of the occupation of the Ruhr district and believes that it does not promote the recovery of reparations. Moreover, it believes there is grave danger of the collapse of authority in Germany and the break-up of the country into numerous units which will neither acknowledge the obligations to make payments or have the ability to make them. It proposes an impartial examination of Germany's ability to pay, referring with approval to the suggestion offered by the Secretary of State of the United States, and, the terms having been arrived at in this manner, a mixed

Commission to take charge of German finances, after exacting tangible pledges to secure payment.

The concluding British note sums up the argument in part as follows:

51. What Germany's maximum capacity for payment may be is a matter which should be determined by impartial inquiry into the facts. It cannot be ascertained by casting up the amounts which Germany's creditors would like to receive. To ask for more than Germany's maximum capacity cannot assist in the actual recovery of reparations. It can only destroy the assets which Germany can offer to the Allies. To force liquidation is not the most profitable way of making recovery from a debtor with resources.

52. It is admitted that Germany can only make substantial payment if, by the restoration of her public finance and a stabilization of her currency, a surplus is made available for reparation on her budget. Moreover, this surplus must be in a form in which it can be made available for external payments over the foreign exchanges. External debts cannot be paid by the collection of depreciating paper marks. In the view of His Majesty's Government forcible interference with the economic life of Germany, even if it be consistent with the terms of the Treaty of Versailles, cannot assist in the necessary restoration. Not only will it prevent the realization of any surplus for reparation, but, by intensifying the disorder of German finance and currency, it will have the gravest reactions on trade.

The French Position

The position of the French Government, in which it is fully supported by the Belgian Government, is that no negotiations with the German Government will be had until the latter has withdrawn all orders and proclamations directing and inciting the people of the Ruhr to so-called passive resistance. Premier Poincare, in a lengthy note, conciliatory but firm in tone, reviews the history of negotiations and argues that Germany's troubles are of her own making and due to deliberate intent to avoid payment. He repeats the declaration that France will withdraw from the Ruhr only as she receives payments, and rejects the proposal to have the amount of reparations fixed by "irresponsible financiers." Finally, he definitely connects the Reparations debt of Germany with the French debts to Great Britain and the United States. He urges that reconstruction work has the first claim on funds received from Germany, and stands firmly on the terms of the May, 1921, agreement, under which Germany agreed to issue, and did issue, three series ("A", "B" and "C") of 5 per cent bonds, of which the "A" and "B" bonds, amounting to 50,000,000,000 gold marks (\$12,500,000,000) were immediately distributed to the allied governments, and 82,000,000,000 were placed in the hands of the Reparations Commission, to be distributed later, when in judgment of the Reparations Commission the financial recovery of Germany warranted the assessment of interest thereon. He insists that France's share (52 per cent) of the 50,000,000,000 gold marks provided for in the "A" and "B" bonds represents her irreducible minimum available for reconstruction. This

would be 26,000,000,000 gold marks, or about \$6,500,000,000. When this amount has been realized by France, she will consent that from her share of the "C" bonds her debts to Great Britain and the United States shall be paid. The "C" bonds, aggregating 82,000,000,000 gold marks, have not been delivered, and interest is not accruing on them. They are secondary to the "A" and "B" bonds.

France's Attitude on Inter-Allied Debts

Again and again in different sections of his argument he repeats that France can only pay as Germany pays her, and after the reconstruction work is done. He says:

We have never contested the claims of England. We have only said, and we repeat, that our debt, contracted in exceptional circumstances and in the common interest, cannot be compared in morality or in justice to Germany's reparations debt.

France has never repudiated her debts and will not repudiate them, but she is convinced that no British Government will ever bring to bear upon an allied country the pressure which the British Cabinet does not think it possible to bring to bear today against the former enemies of England and France. We can therefore only repeat that we will be in a position to repay our debt to England, or even to pay interest on it, when payments by Germany shall have enabled us to complete the reparation of damages caused on our soil by invasion and battle.

France has never repudiated debts she contracted during the war, either from America or from England in interest of a common victory. Besides she is a creditor for five or six billion gold marks which she advanced to her Allies during the war. These credits and these debts among the Allies represent generally purchases of arms, material and munitions and feeding the armies which fought fraternally, side by side, and they constitute almost the entire collective war cost.

While recognizing our debts, while not thinking of leaving them unpaid, we are forced to say that we can pay them only after receiving what Germany owes us. We demand of her in addition to our 26 billion marks' share of A and B bonds, what will be demanded of us. The less we are asked to pay, the more Germany will be relieved.

We wish to pay our debts. Both our debts toward United States and debts toward Great Britain. We cannot accord preference to one or the other. We can therefore not make ourselves solidary with Germany toward England for the payment of the debt of England to the United States; we cannot, on the other hand, abandon our whole share of bonds for partial settlement of the interallied debts; we should in any case be obliged to come to agreement in advance with the Government of the United States, which also being our creditor has interest in seeing that our financial position is not made worse.

Examination of the payment of the war debts would be by common accord adjourned to the same date. We do not suppose that England desires to demand payment of the interallied debts before payment of the reparations. She will certainly be first to understand that in order to acquit herself France must first recover her full productivity and repair her disasters and place herself in a position to compete with equality with her German rivals. The interest of England is without doubt that Germany recover; it is certainly not that France should sink.

The Case Summed Up

The debts of France to the United States and Great Britain are stated as equivalent to about 27,000,000,000 gold marks. Hence the

mimum demand of France on Germany is fixed at 53,000,000,000 gold marks, or approximately \$13,000,000,000. This, however, is present value. The "A" and "B" bonds have been accruing interest since May 1, 1921, and interest is also accruing on the debts to this country and Great Britain. Germany evidently is not in position to make cash payments, and not likely to be for some time to come. Thirteen billions at 5 per cent would be increasing at the rate of \$650,000,000 per year.

M. Poincare does not say that France will insist upon Germany's paying 53,000,000,000 gold marks. What he says is that any reductions from that amount must be offset by corresponding reductions in what France owes the United States and Great Britain. France will show no favoritism between these two countries.

Our claim on Germany has been reduced to 26 billions, but our debts have not in any way been reduced, and we cannot expect less from our allies than that which has been accorded Germany.

In short, M. Poincare says, fix it up, gentlemen as you like, so that France gets 26,000,000,000 gold marks and is set free of the debts to Great Britain and the United States.

Germany without doubt could pay \$6,500,000,000, with interest, but this is taking no account of the claims of Great Britain, Belgium and Italy in reparations. France was to have 52 per cent and the others 48 per cent. Great Britain protests that she cannot afford to throw off her share of reparations and also forgive all that is owing by her allies, in view of her obligations to the United States.

The debt of Great Britain to the United States figures in this correspondence at 14,200,000,000 gold marks, "present value," which is something less than \$3,500,000,000. The principal of the British debt, however, as settled upon some months ago, was slightly above \$4,600,000,000 and reduced to that sum by cash payments. The total of all payments to be made over sixyt-two years is \$11,105,965,000.

In calculating the "present value" of this debt at only 14,200,000,000 gold marks, it would seem that Marquis Curzon, the British Foreign Minister, has considered that the value of money is actually more than the 3 or 3½ per cent interest rates agreed upon, and that the United States in granting these rates has actually made a concession upon the principal equivalent to the difference between \$3,500,000,000 and \$4,600,000,000.

Just what relationship this present value calculation has to the European situation is not clear, for surely the British Foreign Secretary is not expecting to get the cash to discount the debt to America. However that may be, the Marquis Curzon expressed the willingness of Great Britain to reduce her

aggregate claims to an amount sufficient to cover her debt to the United States, which would be a reduction of considerably more than one-half. He says:

The main principle of the British scheme is that Great Britain is ready, subject to the just claims of other parts of the Empire, to limit her demands for payment by the Allies and by Germany together to a net sum approximately 14.2 milliards of gold marks, this sum representing the present value of the recently funded British debt to the United States Government.

Upon this proposal M. Poincare comments as follows:

It is very natural that England should try to recover from Germany that which she owes the United States. This is what we ourselves would like to do regarding our allied debts, but England says: "I have promised to pay the United States 14,200,000,-000 gold marks. I will demand from my allied debtors the amount which I do not obtain from Germany." Thus it would be allied debtors of England who would pay to her that part of 14,200,000,000 owed to the United States which Germany does not pay. The British Cabinet thereby establishes solidarity between Germany and her own allies, placing on an equal footing war debts and interallied debts.

The Interest Bu Jen

It will be seen that in all these calculations interest on deferred payments is a more important factor than the principal. The sums under consideration are so enormous that they cannot be paid cash down; they must be spread over many years, as in the case of the British settlement with the United States. France is borrowing great sums for reconstruction work and paying interest on them; of course she wants interest on the deferred reparations debt. The United States is paying interest on the Liberty bonds which she sold to raise the sums loaned to the allies, and naturally wants interest on the loans, and Great Britain with her great interest bills to pay naturally wants interest from her debtors. The logic of the situation is that Germany should start the payments, but it is conceded that she can only do so by negotiating a foreign loan. In other words, Germany's first task is to re-establish a sound monetary system, and then to re-establish herself in foreign trade to the extent of having a credit balance. Meanwhile interest is running up all around at a rate that makes the situation more hopeless every day. Interest is not a burden where capital is borrowed for productive purposes, but war debts, particularly where they run to foreign creditors, are very hard to pay even to the extent of the principal, for they represent no productive values.

The manner in which compound interest piles up an aggregate sum is familiar. The approximate rule is that the original principal will double in as many years as the figure representing the interest rate will go into 72. Thus, at 6 per cent, compounded annually, the principal will double in twelve years, and at three per cent, which is the lowest rate on

the British debt, the original debt would double in twenty-four years if no payments were made. The agreement provides for amortized payments, but the rate of amortization necessarily is slow, with the result that the aggregate of all payments even at 3 and $\frac{1}{2}$ per cent interest will be nearly two and one-half times the debt settled upon in January last, which itself included several years of accrued interest.

The French Appeal

The pleas of M. Poincare, based upon the necessities of the French situation, are well calculated to excite sympathy. There is force in the contention that the inter-allied debts were all contracted in a common cause. It is difficult to keep books between allies in a war, for war is such desperate business that each participant, once committed to the struggle, is interested in putting his whole weight into the contest until the enemy is overcome, and in assisting allies to do the same.

The situation does not give promise of an early settlement. Moreover, it does not give encouragement to the idea that the United States should join in a conference at present. It is evident that the United States has no place in a conference upon this subject unless its representatives have authority to deal with the debts running to this country, but the Congress of the United States has granted no authority to executive officials to make concessions upon the indebtedness. The only action of Congress upon the subject has been that permitting certain concessions upon interest, under which the settlement with Great Britain has been made.

All Europe looks to the United States to break the deadlock, but it is scarcely possible for the people of this country and the people of Europe to see the situation in exactly the same light. The great body of the people of this country never have been able to regard the war as primarily an affair in which they were vitally interested, and they are inclined to think that it has cost them enough as the matter now stands, considering their responsibility and interest in it. They have no thought of being a hard creditor. They are not pressing France for settlement. If M. Poincare would come to this country to present his case he would have a wonderful reception, but the inertia of a body of 110,000,000 people toward a proposition for debt-cancellation is something enormous to overcome.

The Fundamental Problem

The chief reason for all the trouble over reparations and debts, as we have indicated time and again heretofore, is that few people have any appreciation of the difficulties that

attend upon undertakings to pay great sums from one country to another. The problem is just the same for inter-allied payments as for reparation payments, for it is created by the fact that they are great one-way payments. Normal business relations are reciprocal; they consist of an exchange of values, mutually beneficial. The drafts or bills of exchange representing billions of trade meet in the banks and clearing houses and offset and cancel each other. There is no possibility of piling up billions of one-way indebtedness in normal trade relations. These great payments for which statesmen are endeavoring to arrange, are, therefore, abnormal and in contravention of ordinary business experience and principles. They require that great values be actually transferred, instead of being offset against each other. In what form can they be transferred? Not in money; not in securities of the debtor countries, for they are only promises; evidently the values must be in the form of commercial goods, a surplus of exports over imports. Not only is it difficult in the present state of trade depression for any country to create large export balances, but no country wants to receive an unusual influx of imports.

Germany has produced a large crop of potatoes this season, and has been shipping potatoes to England, with the effect set forth in the following cablegram:

London, Aug. 30.—Thousands of tons of German potatoes have been dumped on the English markets, causing a serious loss to English growers. The dumping has forced the price of potatoes down to about \$27.50 a ton, whereas the growers say they are losing money unless they are able to get \$30 a ton.

The growers have formed an association and will attempt to have a bill passed by Parliament which would prohibit the importation of potatoes when the home market was in a stable condition.

The trade of the world grows normally from year to year in a fairly balanced state. What is known as prosperity consists of a balanced state of production and trade. Demand and supply are always closely adjusted. Any movement that would suddenly create a great excess flow of certain products into the markets of the world, without stimulating any return flow of other products, as occurs in natural trade, is bound to cause disturbance. In fact it is impracticable.

The British Settlement

This stage of developments has not yet been reached, none of the debtor countries, with the possible exception of Great Britain, having yet demonstrated that it can create a credit balance. Even in the case of Great Britain, experience is not reassuring. In January last, when the debt settlement was negotiated, sterling exchange ranged at \$4.65 to \$4.67 and is now at \$4.55. Just how much influence the continual offering of pounds sterl-

ing for conversion into dollars, at the rate of \$161,000,000 a year, for the purpose of meeting the debt payments, has had in this decline, cannot be accurately determined; not enough time has elapsed for positive judgment upon the influence of these conversions, but of course the tendency is to depress sterling. As a result of the decline, we have the fact that although the British government has made one payment upon the principal, the debt is greater at current rates of exchange than it was last January. Furthermore, the fall of sterling means that for all buyers of our products who use sterling in payment, such products have advanced in price to just that extent. And this affects a great many more consumers than live in the British Isles.

A Problem of Vital Concern

We have not advanced any plan for dealing with the foreign debts running to the United States Treasury, or urged the adoption of any definite policy touching our relations to the European situation. What is said above is intended only to give aid to an understanding of the very serious international situation. That it is a grave and difficult situation everybody agrees. It affects not only international trade, but domestic trade and industry in all countries. It affects the prospect for peace in the world in years to come. The economic questions involved are directly related to the problem of finding foreign markets for our surplus products, and thus restoring the industrial equilibrium. Hence it is that without desiring to suggest any policy we feel it incumbent upon us to set forth briefly certain fundamental principles of which account must be taken in international relationships, whether the parties be friends, rivals or enemies. The interest involved are so great and the present situation so critical that the people of all sections of the country should be giving their best thought to the subject.

Petroleum Situation

The petroleum situation has furnished considerable excitement during the past month, supplies increasing rapidly and gasoline prices suffering sharp reductions.

The main cause of the disturbance has been the great increase of crude production in Southern California, which is shown by the latest figures for the daily production of the United States and of the State of California, at the present time and one year ago:

	United States	California
Aug. 1923 barrels daily.....	2,250,450	872,000
Aug. 1922 barrels daily.....	1,492,450	375,000

This however, is not the whole case, for the production of Mexican oil, which came largely to this country, has been declining.

The imports in the five months ending May 31st were 30,774,000 barrels less than in the corresponding months of 1922. The Mexican oil came in on the Atlantic seaboard, and until about three months ago comparatively little oil was moved from California to the Eastern coast. For these reasons the increase in California production has been slow in making itself felt in Eastern markets. A moderate increase of production has occurred in mid-continent fields, notably in the Smackover pool of Arkansas and the Tonkawa pool of Oklahoma. Including imports the field stocks of oil in the entire country increased about 35,000,000 barrels in the first six months of this year, in addition to refinery stocks. It is significant that 10,000,000 barrels of this increase occurred in June, and another 9,400,000 were added in July.

The actual increase, large as it has been in the last few months, is not so disturbing in influence as the fact that it would be much larger but for voluntary and enforced curtailment. Moreover, the limits and capacity of the new fields are not yet well enough defined for very trustworthy calculations as to their possibilities.

Stocks have been accumulating for more than a year and the old law of supply and demand, often made light of but always on the job, is making itself felt. There is a limit to the amount of oil that even the big companies will buy. Steel tankage costs 40 to 50 cents per barrel, and excessive additions may never be filled but once. Moreover, the more oil there is stored the cheaper oil will be. Unquestionably, the best way to hold oil for future use is by keeping it in the ground. Curtailment of production or increase of consumption are the alternatives, and curtailment cannot be done by agreement, as it is in violation of law.

Price Reductions

Naturally, the producers object to price reductions but inevitably they come. It is only a question of time until a continually increasing surplus will break the market for any product. Everybody who undertakes to buy and store under such a condition runs the risk of loss.

The logical and inevitable course for the industry is that of obedience to the law of supply and demand. Prices must come down to the point where declining production and increasing consumption meet, so that stocks will stop growing and be worked off. It is no different from the wheat situation in this respect.

No doubt opinion within the industry in the early stages of increasing stock was against radical action upon prices of crude and the products, but it had to come, and the action of the Governor of South Dakota in threatening to put gasoline on sale at a price below

the market only hastened it. Accumulating stocks of both crude oil and gasoline were forcing weak holders to liquidate, which gave the Governor his opportunity. No doubt his intentions were excellent, but the fact that he sought to restore the price of gasoline in part a few days later shows that he had not been informed upon all phases of the subject, and illustrates the common weakness of governmental efforts to regulate business.

The big companies are caught in a cross-fire of criticism which illustrates the Governor's dilemma and throws more light on the effects of governmental attempts to regulate. If the big companies under such conditions fail to make price reductions they are accused of profiteering; if they take the lead in making reductions they are accused of price-cutting to kill off competition. Under the circumstances, probably they were glad to have the Governor take the lead.

California Competition in the East

All available tankers have been drafted for the conveyance of crude oil from California to the Atlantic coast. Foreign ships cannot enter the coast-wise trade, but American boats are moving about 200,000 barrels per day. The cost of transportation is 75 cents to \$1.00 per barrel, but the California oil is of high gasoline content, and the effect of this invasion is to menace the eastern fields. Statistics of the American Petroleum Institute show that of the total production of gasoline-bearing oils east of the Rocky Mountains, 29 percent is coming from districts in which the average production is less than 10 barrels per day, and this oil must be pumped. The California output is of flush production, spouting hundreds and thousands of barrels per well. It is said that many of the small wells if once closed never will be reopened and they are called the backbone of the industry. Following up the parallel with the wheat industry, if the government is to guarantee a price for wheat based on cost of production, why not to these oil producers? The oil-well owner has only one crop, whereas the wheat-grower may turn to other crops.

Gasoline Production

The increase in gasoline production is greater than in crude oil. For one reason, the California oil production is of high gasoline content, whereas the Mexican that has been coming is of low gasoline content, and, furthermore, improved technical processes have increased gasoline extraction generally. Gasoline production in this country increased from 54,802,457 barrels in the first five months of 1922 to 73,188,670 barrels in the correspond-

ing months of 1923, a gain of 33.5 per cent against a gain of only about 8 per cent in production and imports of crude.

On the other hand, consumption is increasing rapidly. In an address at Titusville a few days ago Mr. A. C. Bedford, of the Standard Oil Company of New Jersey, calculated current consumption of gasoline in this country as follows:

Dividing the number of motor cars and trucks registered at the close of 1922 into the figures of gasoline consumption in that year, an average consumption per car of 12,5952 barrels is obtained. This computation, of course, ignores exports and consumption other than in motor cars, but as these deductions will be proportionate this year, a similar divisor may be used in estimating this year's requirements. On the basis of the registration of 14,500,000 cars at the end of this year, and with a consumption per car indicated by the 1922 statistics, the aggregate gasoline requirements this year would be 182,630,950 barrels.

The production of gasoline is now higher than in the first five months of the year, but so probably is consumption. The chief unsettling influence is the shut-in production and the possibilities of further development in the new fields. On the whole, while there is risk in accumulating oil and gasoline under the high storage costs, it cannot be said that the outlook is for cheap gasoline over any long period. Flush oil production goes off rapidly and consumption is always mounting higher.

Dairy Expositions

The annual National Dairy Exposition, which has been held for several years in the west, is coming back this year to the premier milk-producing state, New York, and will be held at Syracuse, October 5-13. In conjunction with it will be held the World's Dairy Congress, which will be attended by delegates and distinguished visitors from 36 or more foreign countries, including all that are prominent in milk and butter production. It will be a great occasion in the dairy world, affording opportunity for comparison of dairy appliances and methods and should give a further stimulus to the industry in this country.

The literature put out for this exposition states that the farmers of this country receive \$2,000,000,000 annually from milk and its products. This is several times the proceeds of the wheat crop, and the returns are far more stable. A recent bulletin from the New York State College of Agriculture, Cornell University, states that of the five most important farm products in the United States, only two, cotton and dairy products, are as high as the general price level. In the case of cotton there is a short crop on a large acreage, due mainly to the ravages of the boll weevil, but the good prices for dairy products are not due to exceptional conditions. Sta-

tistics from Washington show that milk consumption in the United States increased about 25 per cent from 1917 to 1922, while the population increased by only 15 per cent from 1910 to 1920, which speaks well not only for the growth of the dairy industry, but for improvement in the standard of living. At this time the storage season for butter this year is past, and the amount in storage is less than one year ago.

Referring to stocks shown August 1st by the government report, the Produce Review of New York says:

These figures afford a lot of "food for thought." Probably the question uppermost in the minds of most operators is whether the higher range of prices that are now ruling and which will meet our people when they come back from their summer outing will offset the shortage with which we are going into the Fall. Thus far the fact that consumers have had to pay 5@9c a pound more than last Summer has had no appreciable influence on the trade. Butter has sold remarkably well the past three months and the consumption is still very good. Perhaps the chief danger lies in opening an outlet for substitutes. For two years or more they have been practically dead so far as any competition with butter is concerned, but there is undoubtedly a point at which something of a place will be found for them.

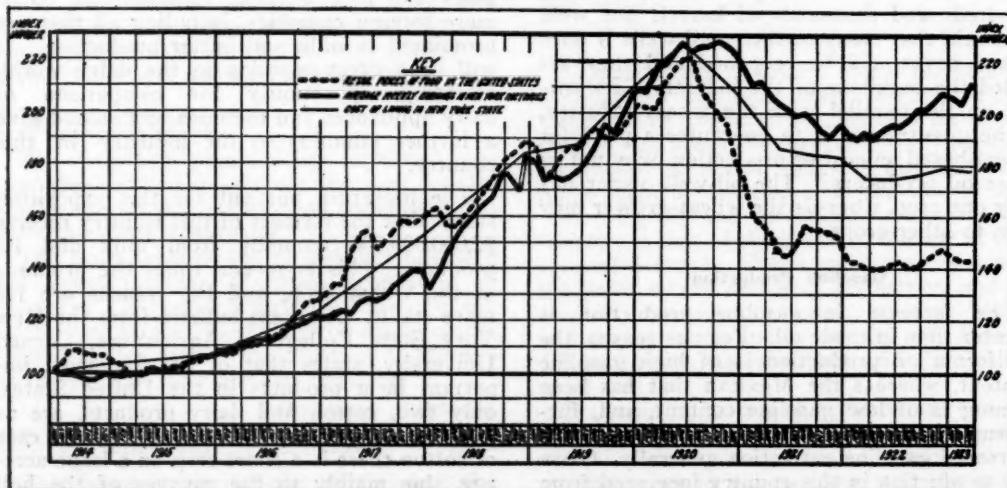
The Pacific International Live Stock Exposition will be held this year, as heretofore, at Portland, Oregon, November 3-10. This is the great West Coast show of blooded cattle and of the products and appurtenances of the dairy industry. Its supporters plan to make it bigger and better than ever this year. This exposition, like the one at St. Paul in September and others, is cordially backed by bankers and the business community generally, who realize that agricultural prosperity is a matter of common interest.

The Wage Movement

The two charts which follow have been taken from the "Industrial News," a monthly publication issued by the New York State Department of Labor. They present an authoritative showing of wages and living costs which is of special interest at this time, when the farmers are complaining of the unfair relationship existing between their products and the factory products which they must buy, and when in numerous industries, notably coal production, transportation, the manufacture of shoes, clothing, etc., the wage-earners have been pressing for higher wages.

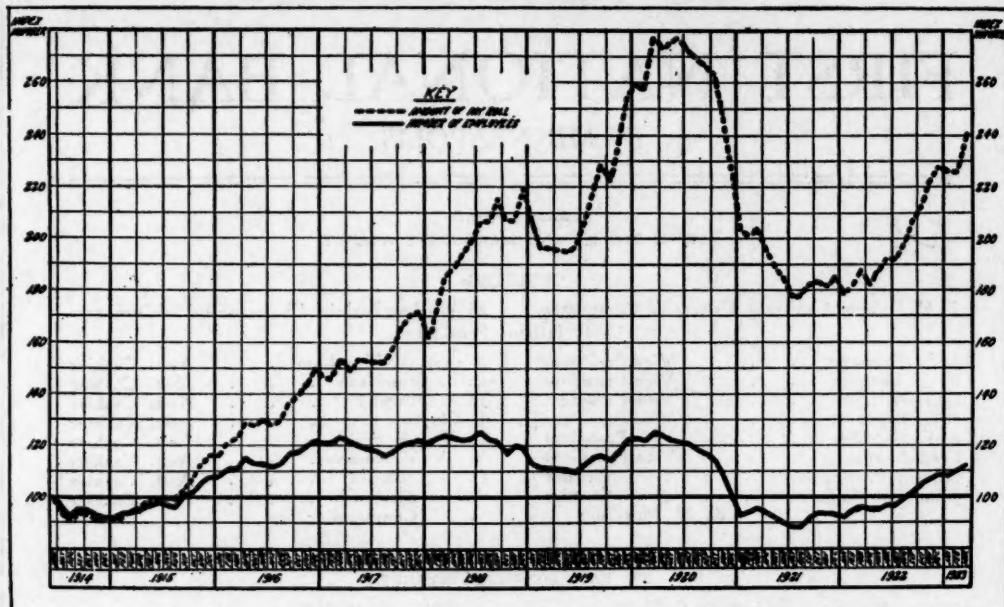
The first chart shows the trend of wages, the cost of living and the cost of food over the period from the middle of 1914 to the end of the first quarter of 1923. These lines show that in 1914, the first two months of 1915, and during nearly all the time from about the middle of 1916 to the last quarter of 1919, food rose faster than wages, and on the whole the cost of living kept slightly ahead of wages, but since the latter part of 1919 wages have been ahead of food products, and since the middle of 1920 ahead of the wage cost of the goods and services that commonly enter into living costs. Since the latter date the wage-earner has had an advantage over the food-producer which justifies the latter's complaints. The line representing the cost of living is held above the line representing cost of food by the wage factor in fuel, transportation, clothing, shoes, and services of all kinds. The farmer must purchase these, but his income is indicated by the line representing food.

COMPARISON OF COURSE OF AVERAGE WEEKLY EARNINGS IN NEW YORK STATE FACTORIES WITH COST OF LIVING IN NEW YORK STATE *



* The cost of living index charted for New York State represents the combined figures for New York City and Buffalo, with an assumed increase of 3 per cent from June, 1914, to December, 1914, which is based on the increase for the United States.

INDEX OF EMPLOYMENT IN FACTORIES IN NEW YORK STATE



The second chart shows the growth of the payrolls of New York factories in number of employees compared with the increase in aggregate payments.

No right-minded person will regret to see improvement in the wage-earning class when it comes as the result of improvements in in-

dstry which raise the condition of all producers alike, but the workers in mines and factories and upon railroads cannot in the face of this showing of the facts justify claims to higher wages at the expense of the producers of food. The chart is the answer to such demands.

THE NATIONAL CITY BANK OF NEW YORK

FIRST NATIONAL BANK

IN MINNEAPOLIS

MAIN OFFICE FIFTH STREET AND MARQUETTE AVENUE

OFFICERS:

F. M. Prince, Chairman Executive Committee	F. A. Chamberlain, Chairman Bd. of Directors
C. T. Jaffray, President	
J. S. Pomeroy . . . Vice-President	Walter A. Meacham . . . Asst. Cashier
P. J. Leeman . . . Vice-President	C. B. Brombach . . . Asst. Cashier
Geo. A. Lyon . . . Vice-President	J. A. Murphy . . . Asst. Cashier
J. G. Byam . . . Vice-President	J. Clayton . . . Asst. Cashier
E. E. Blackley . . . Vice-President	G. Woods Smith . . . Asst. Cashier
Fred Spafford . . . Vice-President	W. A. Volkmann . . . Asst. Cashier
Stanley H. Bezquier . . . Cashier	L. W. Scholes . . . Asst. Cashier
John G. Maclean . . . Asst. Cashier	A. G. Bjerken . . . Asst. Cashier
K. M. Morrison . . . Comptroller	

ST. ANTHONY FALLS OFFICE 328 EAST HENNEPIN AVENUE

JOSEPH E. WARE, Vice President	WM. E. NEUDECK, Assistant Cashier
SAMUEL E. FOREST, Vice President	CHARLES A. PALMER, Assistant Cashier
CHARLES L. CAMPBELL, Assistant Vice President	EDWIN R. WISTRAND, Assistant Cashier

NORTH SIDE OFFICE WASHINGTON AND PLYMOUTH AVENUES

W. H. DAHN, Vice President	F. R. SLEAVIN, Assistant Cashier
-------------------------------	-------------------------------------

BLOOMINGTON—LAKE OFFICE BLOOMINGTON AND LAKE

A. M. MACHO, Assistant Cashier	A. S. NEWCOMB, Assistant Cashier
--------------------------------	----------------------------------

MINNEHAHA OFFICE 2626 EAST TWENTY-FIFTH STREET

G. W. LALONE, Assistant Vice President	ARVID A. LUND, Assistant Cashier
---	-------------------------------------

WEST BROADWAY OFFICE WEST BROADWAY AT EMERSON W. H. DAHN, Vice-President

CAPITAL AND SURPLUS - \$10,500,000

MINNEAPOLIS TRUST COMPANY

115 South Fifth Street

The First National Bank, Minneapolis Trust Company and Hennepin County Savings
Bank are under one ownership

